Research Paper | HRM | E-ISSN No : 2454-9916 | Volume : 8 | Issue : 4 | Apr 2022

COSTS AND EFFECTS OF EMPLOYEE ATTRITION

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ABSTRACT

Managing human resources has been the topic of discussion for several decades. Research studies on employee behaviour have led to study the intentions of employees. This in turn has revealed that employees are the assets of any organization that walk out every evening leaving the managers in a state of guesses as to how many would return the next morning. The challenge today for managers is not just about managing people, but about finding the right person for the right job and most importantly retaining them in the organization. The causes and reasons for attrition have been studied and ample literature lists down reasons for this. This paper attempts to study the costs incurred due to employee attrition.

KEYWORDS: Labour Turnover, Employee Attrition, Human Resource Management.

INTRODUCTION:

Human resource management may be thought of as "the total knowledge skills, creative abilities, talents and aptitudes of an organizations work force as well as the values attitudes and benefits of an individual involved…. It is the sum total of inherent abilities, acquired knowledge and skills represented by the talent and aptitudes of the employed person."(Megginson,Leon .C)

Today, it is not just about managing people but managing the right people and retaining the right talent. Managers are today faced with the challenge of identifying the right employees and retaining them. Employee turnover has been and continues to be a particularly prolific area of research, with many publications on the topic.

UNDERSTANDING TURNOVER:

Labour turnover as understood over the years is about the number of employees leaving the organization and the number of replacements made. It is an accepted fact that a small amount of labour turnover is essential in all concerns so as to have new ideas and talents in the organizations. But a large turnover is considered critical and managers frame strategies to avoid these. Evidence suggests that turnover is triggered by dissatisfaction with such factors as relationships with supervisors, job content, working conditions, and pay (Griffeth, Horn, and Gaertner 2000). Understanding voluntary turnover is important because when people choose to leave there are multiple direct and indirect costs (Dess and Shaw, 2001). Research on employee turnover has shown that a number of individual, organizational, and economic variables may influence an individual's decision to leave an organization (Mossholder, Sutton, and Henagan 2005; Mobley 1982; Lee et al. 2004; Morrell, Loan- Clarke, and Wilkinson 2001; Mowday, Porter, and Steers 1982). Most of the empirical work that has been published in the management literature has examined individual factors that correlate with turnover, notably job satisfaction, organizational commitment, and perceptions regarding the availability of employment options (Griffeth and Horn 2001). Firms that implement change should be aware that this may result in increased turnover, partly because changes in the pattern of work are likely to result in a greater incidence of shocks. Turnover can be understood as 'voluntary cessation of membership of an organization by an employee of that organization'.While other factors may influence an individual's decision to leave, such as the competitive conditions of the local market, it is clear that management has direct control over many of the most important drivers of employee turnover.

IMPACT OF EMPLOYEE ATTRITION:

Employee turnover is a much-studied phenomenon (Shaw et al., 1998, p. 511) Voluntary turnover incurs significant cost, both in terms of direct costs (replacement, recruitment and selection, temporary staff, management time), and also (and perhaps more significantly) in terms of indirect costs (morale, pressure on remaining staff, costs of learning, product/service quality, organisational memory) and the loss of social capital (Dess and Shaw, 2001). Although these costs are a feature of involuntary turnover (during downsizing, or where employees are made redundant), turnover is more commonly voluntary. Additionally, whereas in downsizing programmes, the more able employees are retained, when it comes to voluntary turnover, the best performers are also more likely to find alternative employment, and thus leave (Jackofsky et al., 1986).

Labor turnover takes place at all levels of management. At the lower-level turnover is not viewed seriously, as technical/ unskilled labour is available and hence replacements are faster. Compared to this, a turnover at the middle level management is a crucial factor. Key employee retention is critical to the long-term health and success of any business. Employee retention matters. This is so both in terms of quantity and quality. Strictly speaking, a labour turnover at the middle level is termed as "employee separation". Separation means cessation of service with the organization for one reason or the other. The employee may be separated from the payroll of a company as a result of:

(i) Resignations – put in voluntarily by the employee on grounds of health, physical disability, better opportunities etc.

(ii) Discharge- involves permanent separation of an employee from the payroll for violation of company rules or for inadequate performance.

(iii) Dismissal- termination of services of an employee by way of punishment for some misconduct or for unauthorised and prolonged absence from duty. (Mamoria C.B & Gankar S.V, Personnel Management – Text and cases, 2002) Of these, managers need to avoid the first type of separation by way of resignations by employees on grounds of receiving better prospects.

Effects of employee separation:

Employee separation may be understood as an employee leaving an organization for better prospects or internal reasons. At the middle level, organizations have a pool of talented employees. These are the employees who will be the future top level managers involved in decision making. Various estimates suggest that losing a middle manager costs an organization up to 100% of his salary.(Isukapally, Mythri, 2006)The loss of a senior executive is even more costly. These are the employees who will bring creativity, innovation and growth of the organization. Organizations spend a lot of their resources in terms of money, time and investment on these employees with a view to develop this talented pool. At the middle level, employees are more focused in their objectives, jobs are descriptive and specific and skills are abundant. Losing an employee at this level may lead to the following:

1. A share of the talent is lost to competitors.
2. Peers and groups both formal and informal are disturbed and morale is low.
3. Flow of work is affected and quality suffers.
4. No immediate replacement is available.
5. The time spent on recruitment, selection, placement, training, and development goes into the drain.
6. New replacement may not necessarily possess the abilities and skills of the previous employee.
7. Separated employee carries with him the strategies, policies and thought process of the higher level management to the competitors.
8. Productivity takes a dip until the new incumbent is able to put in his best.

9. Administrative work increases as the personnel department needs to settle the separated employee and the new incumbent's history /case records are to be prepared.

10. Above all, the most important and glaring effect is the loss of a potential future contribution of an exceptionally good employee.

11. The above effects are generalized and these may vary from organist ion to organization or employee to employee. The loss of an employee should be equated to a marginal downfall in the organizations strive towards achievement of its goals.

Costs of employee separation:
Organizations have to bear massive costs associated with attrition or turnover and, while some of these are not visible to the management reporting or budget system, they are none the less real. The effects of employee separation may be quantified in terms of cost /losses to the organization. Though most of the costs are only assumptive a few of the costs are could be appropriated. Organisations seldom realise the costs that they incur due to separation of employees. They fail to recognise the inherent expenditure incurred due to this. This is one reason why orrganisations take a lighter view of employee resignations at the middle level. At times managers are of the wrong view that when an employee quits, it is cost advantageous to the organisation. This presumption is based on the assumption that replacement of an employee will be done at lower salaries and emoluments thereby saving costs for the management. What is forgotten is that management tends to lose on time and resources.

The many direct and indirect costs associated with replacing staff can be sorted into hard costs, soft costs, and opportunity costs. Hard costs, such as newspaper advertisements, have a direct financial impact on the organization and are accounted for as expenses. Soft costs, such as the time it takes to interview applicants, will not show up on an income statement; but those costs arise, for example, when managers are distracted from other value-added activities. Opportunity costs, such as missed sales, usually go unmeasured altogether but can be substantial. Given that such costs may considerably diminish profitability (Simons and Hinkin 2001), it is imperative to effectively manage employee turnover.

Opportunity costs and replacement costs are not considered to offset the lower salaries paid to a new incumbent. Some of the costs incurred by an organisation due to employee separation are:

1. Opportunity cost, i.e., the cost of having lost the opportunity of utilising the employee's talent. This can be quantified in terms of the volume of business lost due to employee separation at present and in future.

2. Replacement cost, i.e., the cost of replacing the employee. This cost includes:

   (a) *Recruitment cost:* cost of advertisements, agency costs, employee referral costs, hiring costs, etc.

   (b) *Selection cost:* the time spent by the HR manager on screening of resume, scheduling of interviews, test administration time , personal interview of the incumbent , negotiation, hiring ,etc. This time , if not for the resignation would have been utilized by the HR manager in other productive work. Hence the proportion of salary for the time spent on these is the cost of separation of an employee.

   (c) *Training costs;* once recruited the new incumbent is to be provided orientation and training. The cost of hiring a trainer and training material provided adds up to the costs. Moreover the new incumbent is paid during the training period with nil productivity too his credit. On completion of the training the employee will be contributing only at 25% productivity level for the first 2 to 4 weeks and the productivity level gradually increases and reaches 100% in the 15^{th} to 20^{th} week of his service.

   (d) *Administrative costs:* These costs are incurred to include the new incumbent into the payroll, case history of the employee is to be created, a new identity card with a secret employee code and above all the existing employees need to be informed of the induction of the new employee into the organisation.

   (e) *Other costs:* Organizations also fail to add up costs due to wastages, breakages and mistakes committed by the employee during his induction period. Provision of equipments such as computers, email creation, mobile phones and other necessary equipment add up to the total cost.

CONCLUSION:
To sum up, every employee lost should be viewed in terms of loss of productivity, loss of time, loss of finance and loss of talent. Organisations, therefore must avoid employee separation by focusing on employee retention strategies. Finally organizations need to be possessive about the employees. The stronger an organization's possessiveness the longer are the employees retained. [Isukapally, Mythri, Employee Retention – Talent Management (Nov.2006)] Corporate boards need to do more than just focus on how their organizations manage people. They need to be expert people managers themselves. Boards need to evaluate the performance of the CEO and other senior executives, and they need to evaluate their performance as a board and that of their members. To maintain a competitive advantage and to meet the demands of business, organizations need to identify, select, and develop their employees in a way that both supports the company's business goals and provides employees with a clear career path. In other words, organizations must become deliberate and strategic in their programs for managing their talent.

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